

1 Q. (Re: Response to PUB-NLH-96) The response states "Such mechanisms, however,
2 can also protect consumers from overpaying". Are such mechanisms necessary to
3 protect customers from overpaying when there is an allowed range of return on
4 rate base in place?

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7 A. Allowed range of return on rate base is not an appropriate substitute for cost
8 deferral and recovery mechanisms as, in the absence of such mechanisms, it is
9 easier to cross the upper and lower thresholds of range of return on rate base due
10 to cost variations in expenses such as fuel that are typically accounted for and
11 collected from and refunded to customers on a basis that is reflective of cost
12 incurrence. In addition, in relying solely on range of return on rate base, there is
13 potential for one category of expenses, such as O&M, which is largely controllable,
14 to be high when fuel, which is not controllable, is low and still be within the range
15 of return on rate base.